The Great Atlantic & Pacific Tea Company, Inc. Annual Report 1979

A&P

Plus
Priced Low • U Save

The Family Mart

Rosemarie Baumeister
Vice President, Tengelmann Warenhandelsgesellschaft West Germany

Harold J. Berry
Chairman, Investment Banking Committee Merrill Lynch, Pierce, Fenner & Smith Inc.

Walter D. Dance
Director Emeritus and Consultant, General Electric Company

Allan A. Feder
Senior Executive Vice President, President—Manufacturing Group

Helga Haub

Barbara Barnes Hauptfuhrer

Sidney A. Kohl
Chairman of the Board of Directors and Chief Executive Officer, Ridge Bancorporation and President and Chief Executive Officer, Sidney Kohl Company

David W. Morrow
President and Chief Operating Officer

Paul C. Nagel, Jr.

Jonathan L. Scott
Chairman of the Board of Directors and Chief Executive Officer

Eckart C. Siess
Vice Chairman of the Board of Directors and Assistant to the Chairman and Chief Executive Officer

Hobart Taylor, Jr.
Counsel to Jones, Day, Reavis & Pogue Attorneys

Fritz Teelen
Vice President, President—PLUS Discount Foods Inc.

Henry W. Van Baalen
Consultant, Tengelmann Group, West Germany

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Senior Executive Vice President, President—Manufacturing Group

Richard F. Doyle
Executive Vice President, Finance and Chief Financial Officer

Richard J. Flositz
Executive Vice President, Atlantic Group

Willis D. Lonn
Executive Vice President, Special Projects

John J. Miles
Executive Vice President, Eastern Group

Lowell A. Peters
Executive Vice President, Central Group

Robert B. Runyon
Executive Vice President, Human Resources

Rolf J. Schulz
Executive Vice President, Management Controls

William I. Walsh
Executive Vice President, President—Supermarket Systems, Inc.

John L. Dean
Vice President—Management Information Services

Ivor D. Donaldson
Vice President—Property Development

Gerald L. Good
Vice President—Planning

James T. Gow, Jr.
Vice President—Warehousing and Distribution

Philip E. Hoversten
Treasurer

H. Nelson Lewis
Vice President—Industrial Relations

Arthur C. Melervey
Secretary

Earl N. Pilgrim
Vice President—National Purchasing

Robert M. Quinn
Controller

Michael J. Rourke
Vice President—Corporate Affairs

Louis A. Savarese
Vice President—Production

Lawrence W. Snyder
Vice President

Ivan K. Szathmary
Vice President—Information and Administrative Systems

Fritz Teelen
Vice President, President—PLUS Discount Foods Inc.

Robert G. Ulrich
Vice President and General Counsel

Harold N. Tolchinsky
Assistant Secretary

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Comparative Highlights (Dollars in thousands, except per share figures)

For the fiscal year	1979	1978
Sales	$6,684,179	$7,469,659
Net (loss)	(3,807)	(52,186)
Net (loss) per share	(.15)	(2.10)
Additions to property*	69,707	84,273
Number of stores	1,542	1,771

*Includes leased equipment of $2 million and $27 million in fiscal 1979 and 1978, respectively. Excludes real property leased under capital leases.

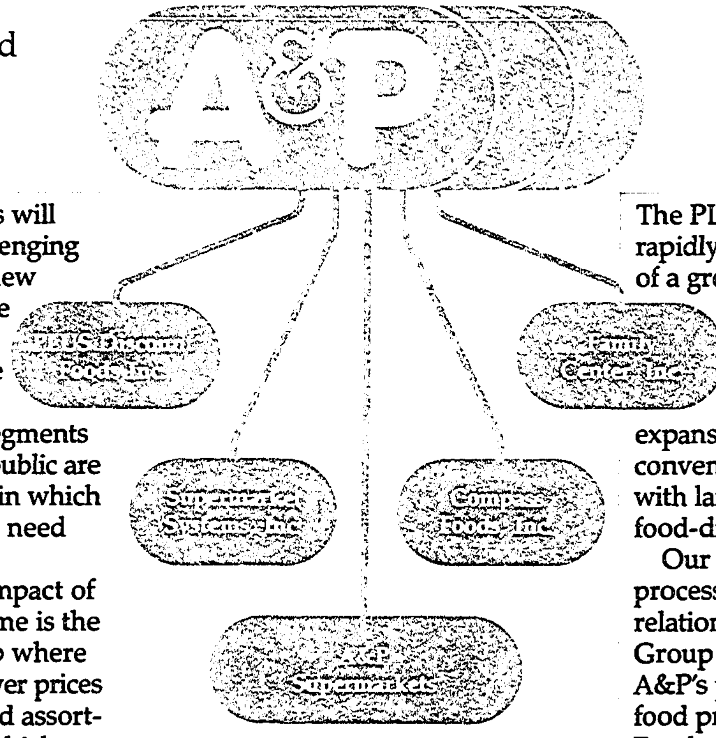
James Wood,
Chairman of the Board of Directors and Chief Executive Officer of A&P, elected April 29, 1980.

On April 29, Jonathan L. Scott, Chairman of the Board of Directors and Chief Executive Officer since February 1, 1975, resigned from the Company to form a personai investment firm.

James Wood, formerly Chairman of the Board and Chief Executive Officer of The Grand Union Company, was elected Chairman of the Board and Chief Executive Officer of A&P, replacing Mr. Scott.

Mr. Wood has been Chief Executive Officer of Grand Union since 1974 and has directed that company's growth from 531 supermarkets with sales of $1.5 billion annually to over 840 supermarkets with sales of approximately $3 billion in 1980.

A New Era...
A new, more diversified A&P for the 80's



Food distribution in the 80's will become an even more challenging business as it evolves into new and different channels. While conventional supermarkets will certainly continue to be the primary outlet for food and related merchandise, segments of the American consumer public are seeking new environments in which to shop based on individual need and preference.

For some shoppers, the impact of inflation on spendable income is the primary concern. They shop where they believe they will get lower prices regardless of service. Limited assortment stores or other units which offer low prices and limited service, will have special appeal to this group. For others, the desire for convenience or the need to reduce gasoline consumption will make the broad selection available in one-stop shopping combination stores the best answer. For still others, quality products, especially meat and produce, a pleasant shopping atmosphere and courteous service will be paramount.

For twelve decades, A&P has constantly renewed itself in order to meet changing customer needs. That process will go forward in the 80's as various trends in consumer demand become more pronounced. A&P is fully committed to maintaining a leadership position in the changing world of food distribution.

We will continue to modernize, expand and build new A&P supermarkets in priority areas that will appeal to the broadest public sector.

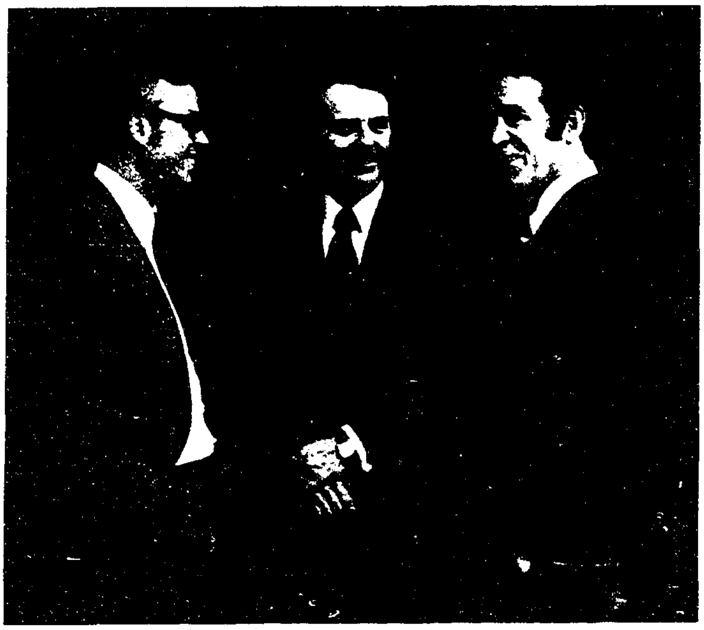
The PLUS subsidiary will expand rapidly in order to meet the needs of a growing number of shoppers primarily attuned to low price and basic food requirements. The Family Center subsidiary will continue its expansion, appealing to the convenience-conscious consumer with large, heavily-merchandised food-drug combination stores.

Our broad manufacturing/processing capabilities and the relationship with the Tengelmann Group of West Germany enhance A&P's position as an exporter of food products through the Compass Foods subsidiary. Compass is also increasing its domestic marketing penetration in areas where A&P does not operate stores.

And, finally, we are exporting A&P expertise in design, installation and operation of supermarkets and food retailing systems to other parts of the world through our Supermarket Systems subsidiary.

It all adds up to a new era in food distribution and a new, more diversified A&P for the 80's.

To Our Stockholders:



Eckart C. Siess,
Vice Chairman,
Jonathan L. Scott,
Chairman,
David W. Morrow,
President.

A&P enters the 80's with a new, more diversified approach to our comeback strategy. The Company's important investor-partner relationship with the Tengelmann Group of West Germany has helped to create new opportunities from which to grow and expand in several segments of world-wide food distribution. While our major commitment continues to be the modernization and improvement of A&P supermarkets in priority geographic locations, we have also developed other areas of investment that are beginning to show promising future potential.

One of the most important elements of this diversification was the establishment of PLUS Discount Foods Inc. in August, 1979. The PLUS limited assortment stores have had outstanding consumer acceptance and will play an important role in our 1980 investment plans and in our future strategy.

On April 11, 1980, the Company announced a preemptive rights offering of approximately 12,500,000 new common shares to all stockholders, subject to preparation of required documentation and all necessary government approvals.

The Tengelmann Group of West Germany, which owns 45 percent of A&P stock, has advised A&P that it plans to purchase its share of the new offering and any additional unsubscribed shares up to a combined total of $50 million. All other shareholders will be offered the same oversubscription rights for unsubscribed shares. This capital infusion will allow us to accelerate the growth of our PLUS Discount Foods subsidiary which was formed in 1979 and operated 32 stores at year-end. It will provide for the short-term operating losses and start-up costs related to PLUS store expansion, and also contribute to A&P's other operations during 1980.

The PLUS store concept, with its low-price, no-frills approach, has tremendous appeal during this time when rampant inflation continues to be the number one economic problem in the United States. The country's highest inflation level in 33 years stimulated price competition among food retailers throughout 1979, causing us to accelerate our strategic move into limited assortment stores. While the strategy of introducing PLUS stores in the U.S. has proven to be successful, the initial start-up costs together with the time required to build volume and develop earnings had an adverse impact on overall profits. This affected our results in the last half of 1979 and will continue during 1980.

A&P profitability improved in the first half of 1979, but an operating loss in the fourth quarter resulted in a loss for the year. The net loss for the year was $3,807,000 or $.15 per share compared with a net loss of $52,186,000 or $2.10 per share the previous year, which included a $40,000,000 net provision for the costs of a restructuring program. Total sales for the year, in 229 fewer stores by year-end, were $6,684,179,000 compared with $7,469,659,000 in 1978.

The fourth quarter loss was directly related to intense price competition in several key markets as well as the start-up costs for the 32 PLUS discount food stores opened during the last half of the year. Even with the fourth quarter loss, 1979 operating results before taxes showed a slight profit, but the requirement to provide taxes on our Canadian operations resulted in an after tax operating loss for the year.

Our 1980 diversification strategy is directed toward achieving A&P's long-range goal of sustained profitability. Because of continuing pressure on profit margins, PLUS store expansion costs and other factors, we do not expect a return to profitable operations during 1980. The new capital infusion, however, will allow us to cover start-up costs and initial operating losses as we add PLUS stores to build volume beyond the break-even point. One important objective will be to replace unprofitable supermarkets with limited assortment stores that can build higher volume on a greatly reduced cost-base to achieve solid earnings.

We will also continue intensified efforts to improve inventory control procedures, and we will strive to increase efficiency to gain the higher productivity levels we must have to

be successful. Over the past several months, we have initiated a zero-based budgeting approach to cost reduction that will reduce overhead and non-essential expenses by a substantial amount.

Continued understanding by A&P employee unions of the need to negotiate labor contracts that solve remaining uncompetitive situations is also essential. One of the most critical labor negotiations this year will involve the Bronx and Long Island Divisions which have had an extended period of unprofitable operations. The outcome of these negotiations will have an important impact on our operating results during 1980.

Improving our sales volume per store is a vital goal for A&P in 1980. The continuing extraordinary inflation levels have reduced consumer buying power, and are having an adverse effect on retail sales trends throughout the country. A&P's response to heightened consumer cost-consciousness has been to mount a strong anti-inflation effort to attract more shoppers to A&P stores.

During 1979, we expanded our money-saving generic product line from 30 to over 100 items, with more to come in 1980. Customers increasingly turned to generic products during the year as a good way to save. We are now manufacturing and processing a growing number of these products, and today, A&P is one of the largest single marketers of generic products in the country.

On March 6, 1980, we initiated a voluntary 30-day price freeze on generics and our Ann Page private label products to emphasize the outstanding savings these 1,600 products offer customers. This was followed by strong price reduction and fresh meat price ceiling programs as additional inflation-fighting incentives. We have also re-emphasized our promotion of the "Action Price" program, which identifies the best values for customers every week through advertising and eye-catching point-of-sale signs.

A&P marketing efforts in 1980 are geared to increase customer traffic and improve market share. Our primary message to customers is total value. In 1979, we continued to build on the quality, selection and service reputation of our meat and produce departments through strong merchandising efforts, using the slogans, "The Butcher Shop with Supermarket Prices" and "The Farm at A&P." Advertising and merchandising strategies for 1980 will aggressively communicate the outstanding values and high quality merchandise we consistently offer customers in every A&P store.

During the past several years, A&P has overcome enormous problems, and we will continue to resolve our remaining difficult situations. We are coming through this period a smaller company but with improved capabilities for the future.

Technological improvements to increase efficiency in *traditional supermarkets,* further expansion of one-stop *food/drug combination stores,* and continued growth of economy-oriented *limited assortment stores* are trends already well established. A&P today is firmly positioned in these three segments of retail food distribution.

Our capital spending for the year amounted to $69,707,000, with 20 new A&P stores being built, 49 being enlarged or having major remodeling, and 83 having other remodeling work. We also added six new Family Mart food-drug combination units during the year for a total of 20 in operation. At year-end, there were 32 PLUS stores in operation along the Atlantic seaboard.

Our financial condition remains strong. Our cash and short-term investments at year-end totaled $63,937,000. We have had no short-term debt for nearly two years, and our long-term debt decreased by $1,957,000 during the year.

We are committed to solving our remaining problems and accomplishing our long-range objectives. We have dedicated employees, loyal customers, excellent supplier relationships and an outstanding asset base from which to grow and develop. The decade of the 80's lying ahead of us promises great challenges and opportunities. We believe the basic ingredients for success are firmly established in our Company and we face the years ahead with confidence.

J. L. Scott

Jonathan L. Scott
Chairman of the Board of Directors
and Chief Executive Officer

Eckart C. Siess

Eckart C. Siess
Vice Chairman of the Board of
Directors and Assistant to the
Chairman and Chief Executive Officer

David W. Morrow

David W. Morrow
President and Chief Operating Officer

April 29, 1980

The need to increase productivity, conserve energy and reduce inflation are universally identified as the critical domestic issues of the 80's. Their relationship to one another is clear as is their direct impact on the food distribution business, especially at the retail level. A&P has been dealing with these problems for some time, searching for solutions while continuing to improve the quality and service our customers desire.

Productivity

A drop in productivity levels within American enterprise has long been viewed as a major contributing factor in the spiraling inflation rate. The past 10 years show an adverse trend in our country's normal productivity growth.

Few industries have been as seriously impacted by this trend as the retail food industry. Even as sales increase, it is difficult to keep pace with a decline in productivity, which is often reflected in reduced customer service.

One of A&P's priorities in the 80's will be to improve productivity through a variety of training programs to sharpen employee skills and improve customer service. Our employees will have more opportunities to evaluate their own upward progress with the goal of becoming more efficient and productive. For example, at the checkout, a Cashier Courtesy Program is underway to help checkers improve their performance in terms of efficiency, courtesy and customer service. The program is structured to allow employees to see their performance scores rise along with increased customer satisfaction. In addition, management is establishing guidelines of store readiness so that managers will be better equipped to assess what a store should look like at any given time of day. With this knowledge, plus established minimum standards for all A&P stores, managers will be able to more easily schedule their people to keep up with the store's activity patterns to increase productivity and provide higher customer service levels.

Human Resources

In the late 70's, A&P demonstrated its commitment to motivating and developing employees by establishing a dedicated Human Resources function. This commitment will continue in the 80's, with every effort being made to ensure optimum advancement and training opportunities for each and every employee.

We've already taken the first steps toward installing a comprehensive performance evaluation program. An extensive job classification system to help ensure competitive compensation levels is also nearing company-wide completion.

Management and employee training programs have been stepped up to address needs on virtually every level of our Company. The positive impact of introducing these new and innovative training techniques is already becoming evident as employees and managers learn more efficient ways to apply their valuable skills and knowledge.

The importance of applying Affirmative Action programs toward equal employment and advancement opportunities has long been viewed as an essential component of A&P's Human Resources effort. We've expanded this activity even further to include comprehensive field training in proper recruiting and hiring practices.

And, finally, our industrial relations professionals have continued to take innovative approaches in solving the problems and capitalizing on the opportunities shared by A&P management and A&P people. This area of expertise, recognized as a critical factor in our relationships with our employees and the labor organizations which represent most of them, continues to have as its prime goal the mutual best interests of all parties.

The ultimate success of any company hinges on its realization that employees are its most valuable asset. A&P's Human Resources group is already well on its way toward investing in that asset through training, job enrichment and other means—an effort that will continue in the years ahead.

Energy

Twenty years ago, a store's utility bill was negligible when compared with all other operating costs. Today, that same bill can and often does exceed the rent. But as energy costs have accelerated, so has our expertise in conservation methods. Two years ago, we were able to reduce store energy consumption by 7 percent. This year, our goal is a 13 percent reduction. We've installed computerized thermostatic controls on refrigeration units in new and existing stores, and we're making the switch to less costly fluorescent lighting. In our new stores, we've introduced heat reclaiming systems that significantly increase our operating efficiency. Our efforts have paid off—a new A&P store is now 31 percent more energy-efficient than one built five years ago.

During 1980, we will implement a Total Energy Awareness (TEA) program designed to achieve maximum results in energy conservation and efficiency. Geared toward every operating level, TEA will be communicated through energy kits, brochures, TV tapes and seminars. Energy conservation will become a key item on almost every meeting agenda, and employees will be invited to offer their suggestions on ways to save more energy.

Left: Robert B. Runyon, Executive Vice President, Human Resources, speaking at a training session.

Below left: Richard F. Doyle, Executive Vice President, Finance and Chief Financial Officer.

Above: Willis D. Lonn, Executive Vice President, Special Projects, at A&P's Edison, N.J., warehouse.

Left: Michael J. Rourke, Vice President—Corporate Affairs, reviewing annual report copy with Rolf J. Schulz, Executive Vice President, Management Controls.

Left: Robert G. Ulrich, Vice President and General Counsel.

Left: Lowell A. Peters, Executive Vice President, Central Group, with a customer, Susan Shoup, in an A&P "Economy Shop."

Below left: John J. Miles, Executive Vice President, Eastern Group, with Store Manager Jeff Ford, at the grand opening of our new store in Newark, New Jersey.

Above: Richard J. Flositz, Executive Vice President, Atlantic Group, looks over scanning operations with A&P checker Kathy Rourke.

Left: Ivan K. Szathmary, Vice President—Information and Administrative Systems, checks a report with Gerald L. Good, Vice President—Planning.

Left: Allan A. Feder, Senior Executive Vice President and President—Manufacturing Group, reviewing private label products with Product Manager Lucille Gesualdi.

The program will be implemented in phases, each dealing with a specific element of conservation. It will reach beyond the store level. Employees will learn ways to apply the energy-saving techniques at home, and brochures with no-cost energy-saving suggestions will be available to our customers at every courtesy counter. Even with these accomplishments, we continue to recognize the need for additional energy conservation and efficiency as an integral part of our planning and new store development for the future.

Inflation

During 1979, the consumer price index as a measure of overall inflation rose 12 percent. Retail food prices were up 10.6 percent, while food away from home showed a 9.6 percent increase. While grocery prices have increased less than the overall inflation rate, consumer demand to hold the line on rising food prices has had a significant impact on the marketplace. Strong price competition among food retailers accelerated rapidly during the last half of 1979 and brought considerable pressure on A&P sales and earnings. The expansion of limited assortment stores, warehouse outlets and discount pricing are major trends aimed at heightened cost-consciousness among consumers. At A&P, we have redoubled efforts on comprehensive programs emphasizing efficiency and productivity, and communicating our anti-inflation efforts to our customers.

Generic Products

Some of these efforts are new programs which, begun earlier, have expanded rapidly in 1979. Generic products merchandising is a good example of the kind of program directed toward a strong consumer concern about food prices. In the spring of 1978, A&P introduced generics in several divisions, beginning with some 30 products. By the end of fiscal 1979, special "Economy Shop" sections carried well over 100 generic items in all A&P stores. Consumer reaction has been positive, and we are continuing to increase the product line. We will have at least 150 generics in A&P supermarkets in 1980, with more to come.

Generic products merchandising is especially favorable from A&P's point of view because we can produce a high percentage of them in our own manufacturing facilities. Generic sales at A&P have come partially from private label product lines, but they have also expanded the total volume in most product categories. We consider generic products to be the lowest price extension of our private label product lines. When viewed from this vantage, their addition has increased the private label market share in 1979 when compared with national brands.

Action Prices

In addition to offering generics and our exceptional values in A&P and Ann Page private label products, we are appealing to consumer concern for food values through our "Action Price" program. Point-of-sale signs identify the best values throughout our stores in grocery, frozen foods, dairy, health and beauty aids, and general merchandise departments. Our best "Action Price" values are featured in weekly advertising along with popular meat and produce items which represent the best values because they are in the most plentiful supply. All of these featured items are the result of resourceful, efficient buying programs directed toward attracting customers to outstanding food values at A&P stores every week. They are the substance behind our radio, TV, newspaper and in-store advertising theme that "You'll Do Better at A&P," which is directed toward building the A&P reputation for total value throughout the store.

Quality Perishables

We continued to build our image for quality meats and excellent produce during 1979. In 1980, we hope to further improve on A&P's quality perishables' appeal with other important merchandising/advertising programs. "The Butcher Shop with Supermarket Prices" is an advertising and in-store identification for our meat departments that embodies the quality and service aspects of A&P's excellent meat reputation. "The Farm at A&P" is a new image concept that highlights the great improvements in quality, variety and freshness that have been made in our produce departments over the past several years.

In harmony with localized promotional activity, these programs encompass A&P's basic merchandising direction in 1980. We aim to continue building our reputation for quality perishables while emphasizing the important price/value appeal to customers through generics, "Action Prices," and our extensive advertised specials program.

Manufacturing

A key element in A&P's future is the broad manufacturing and processing capability organized under our Manufacturing Group. Newly-restructured into two production divisions, the Bakery/Grocery Division, headquartered in the Horseheads, N.Y., installation, oversees operation and production of our grocery manufacturing plants, bakeries, frozen vegetable plants, printing plant and a nut processing plant. The Coffee/Dairy Division, based in Landover, Md., is responsible for coffee roasting plants, fresh milk plants and a cheese plant. Products manufactured and sold in A&P stores under the Company's

brand names include bakery and dairy products, canned soups and beans, pasta products, candy, mayonnaise, peanut butter, salad dressings, powdered drink mixes, jellies and jams, spices, coffee, tea, nuts and peanuts, detergents and waxes, frozen peas and potatoes, and aerosols.

This immense manufacturing capacity will be further utilized in the planned expansion of existing merchandising programs in A&P stores such as our growing generic products line. It will figure prominently in the new directions we are taking in widening the scope of our developing subsidiary operations—providing PLUS label products to our expanding chain of limited assortment stores, supplying Ann Page products to a growing number of Family Marts, and supplementing the Compass Foods product line in sales to an increasing number of domestic and overseas clients.

Diversification

An essential part of A&P strategy for the 80's will be to build on our capabilities in other segments of food distribution. Our expertise and experience in the supermarketing field has led to the development of four independently-operated subsidiaries. Each of these organizations has important growth potential during the next decade as each initiates programs appealing to related but separate segments of the *food distribution business.*

Food-Drug Combination Stores

Family Center, Inc., A&P's Atlanta-based combination store subsidiary, operated twenty 55,000-square-foot stores in Florida, Georgia, the Carolinas and Alabama at year-end. The broader merchandise selection in these stores has strong appeal to the growing number of customers interested in one-stop shopping to save time or conserve gasoline. We expect continued excellent growth and acceptance of these combination units in the 80's and have plans for many more Family Marts in the years ahead.

Limited Assortment Stores

PLUS Discount Foods Inc., an A&P subsidiary, was formed in late 1979 and had grown to 32 stores at the end of the fiscal year. This rapid growth is indicative of the strong customer attraction to these highly efficient, low price operations. PLUS stores provide a remarkably flexible approach to modern food retailing. The stores vary in size from 8,000 to over 12,000 square feet of selling area, offering approximately 1,000 basic items, and can be built on a new site or converted from a traditional small supermarket. During 1980, PLUS store expansion will continue along the Atlantic seaboard, and entry into other geographic areas is being evaluated. We believe the PLUS store concept has great potential in any viable market area.

International Food Distribution

In 1975, A&P formed the Compass Foods subsidiary to pursue opportunities in export and other outside sales of the Company's extensive line of private label products. Compass draws on the multi-million dollar A&P network of food manufacturing installations and also purchases a wide range of products for tailoring orders to individual requirements. It serves companies in non-A&P domestic markets as well as overseas clients. In a few short years, Compass has gained a solid reputation as a dependable merchandiser of quality Ann Page and A&P products in some 30 countries. We expect our Compass Foods subsidiary to continue its strong growth pattern throughout the 80's and beyond.

Food Distribution Expertise

Supermarket Systems, Inc. is an A&P subsidiary founded to assist in improving food distribution systems throughout the world. Specializing in design, installation and operation of supermarkets, Supermarket Systems works with clients from the initial consulting stage to successful completion of the project. The company is managed by senior A&P corporate executives and can draw upon the full resources and experience of the parent corporation for special skills and required talent. The subsidiary is currently involved in three development projects and has numerous other ventures under consideration.

Directors and Management Changes

Left: Fritz Teelen, Vice President and President—PLUS Discount Foods Inc.

Below: H. Prentice Merritt, President—Family Center, Inc.

Left: William I. Walsh, Executive Vice President and President—Supermarket Systems, Inc.

Left: R. Paul Gallant, President—Compass Foods, Inc., discusses export arrangements with Senior Financial Analyst Janak Desai.

Directors:
During the fiscal year, Rosemarie Baumeister, Helga Haub, Sidney A. Kohl, Paul C. Nagel, Jr., Eckart C. Siess, Fritz Teelen and Henry W. Van Baalen were elected to the Board of Directors, and Edwin D. Dodd resigned. William M. Agee, Charles F. Detmar, Jr., Oscar L. Dunn, Jr., and Edward J. Toner did not stand for re-election as directors at the July 6, 1979, Stockholders' Meeting. With the election of Mr. Siess as a director, the number of Board members was increased to fourteen.

Management:
During the year, the following senior management changes were made:

Eckart C. Siess was elected vice chairman of the Board of Directors, and was designated assistant to the chairman and chief executive officer.

Richard J. Flositz was elected executive vice president in charge of the Atlantic Group which encompasses five operating divisions.

Michael J. Rourke, previously a company officer, was elected a corporate officer with the title vice president—corporate affairs.

Fritz Teelen was elected a vice president and president of PLUS Discount Foods Inc., our limited-assortment discount food stores subsidiary.

Subsequent to year-end, certain other changes were made:

Allan A. Feder was promoted to senior executive vice president.

Rolf J. Schulz was elected executive vice president, management controls.

Ivan K. Szathmary was elected vice president—information and administrative systems.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A&P
SALE!
ECONOMY SHOP
ECONOMY SHOP
ECONOMY SHOP
ECONOMY SHOP
Butcher
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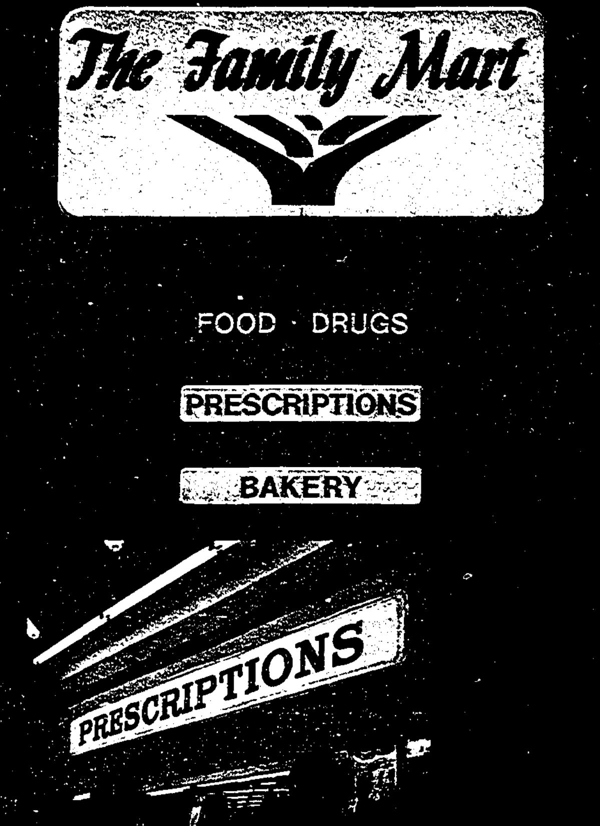
market prices.
FRESH PRODUCE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PRESCRIPTIONS
BAKERY
PRESCRIPTIONS


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Shoppers Cash
SUPER
AZIZA
Save!
Love's Baby
Specials


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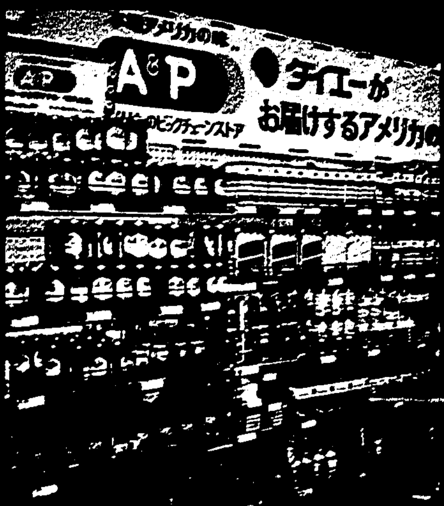
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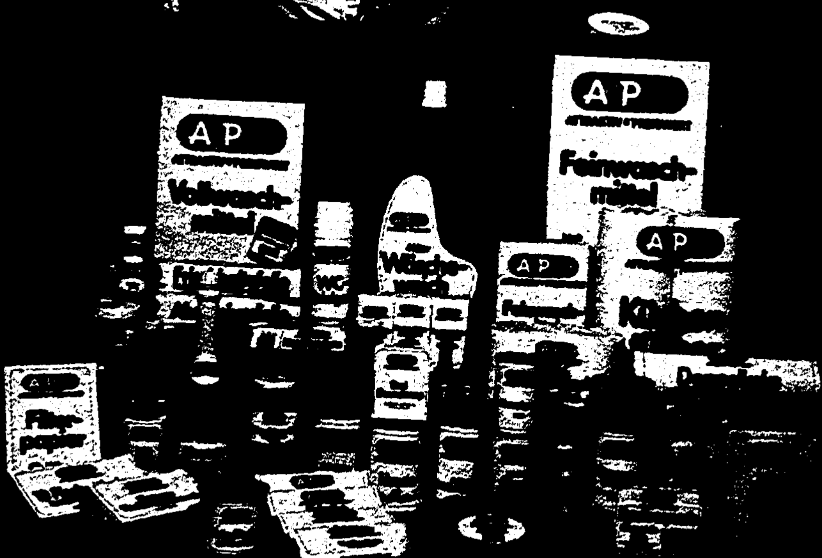
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Fiscal Year—The Company's fiscal year ends on the last Saturday in February. Fiscal 1979 ended on February 23, 1980 and Fiscal 1978 ended February 24, 1979.

Principles of Consolidation—The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All significant intercompany accounts and transactions have been eliminated.

Foreign Operations—Assets and liabilities of foreign subsidiaries have been translated at year-end rates except for inventories, net property and certain deferred items which have been translated at historical rates. Income and expense accounts, except cost of merchandise sold and depreciation and amortization, have been translated at average rates prevailing during the fiscal year. Foreign exchange gains in fiscal 1979 amounted to $.6 million compared with a loss of $2.0 million in fiscal 1978.

Inventories—Inventories are stated at the lower of cost or market, with cost being determined on the following bases: inventories in stores —average cost under the retail method; other inventories, primarily in warehouses and manufacturing facilities—cost on a first-in, first-out basis. Raw materials and supplies, principally at manufacturing facilities, constituted approximately 7% of total inventories in fiscal 1979 and 1978.

Properties—The Company leases a substantial portion of its facilities. Leases, the majority of which are considered to be operating leases, are accounted for in accordance with FASB Statement No. 13. For stores leased under capital leases to be closed prior to lease expiration, the related assets and obligations are eliminated from the accounts as of the date of closing and an accrual is provided for anticipated costs to be incurred prior to the ultimate disposition of the facility.

Owned land and buildings consist primarily of manufacturing facilities and warehouses. Equipment, store fixtures, and leasehold improvements generally are owned, although beginning in 1977 the Company has entered into equipment leasing programs for store equipment and trucks, most of which are accounted for as capital leases. Major additions and betterments are capitalized, whereas maintenance and repairs are charged to operations as incurred. When properties are replaced, retired, or otherwise disposed of, the cost of such properties and the accumulated depreciation are eliminated from the accounts in the year of sale or retirement. The gain or loss on the disposition of assets is recognized currently. Net losses on the disposition of closed facilities are charged to reserves previously provided therefor (see Closed Facilities accounting policy below).

Depreciation and Amortization—For financial reporting purposes, depreciation and amortization are provided, generally on the straight line method, over the estimated useful lives of the respective assets. Approximate annual depreciation rates for properties are as follows: buildings, 2% to 5%; store and other equipment, except automotive —8⅓% to 10%; store fixtures and leasehold improvements—10% to 12½% and automotive equipment —14²⁄₇% to 33⅓%. Equipment and real property leased under capital leases are amortized over the lives of the respective leases.

Pre-opening Costs—Costs incurred in the opening of a new store are expensed in the quarter in which the store is opened.

Closed Facilities—The Company provides for the estimated loss on the disposition of leased or owned facilities in the period in which the decision to close the facility is made. For significant closing programs, provisions are established for estimated closing costs including employee severance payments and other employee benefits, future operating losses of facilities to be closed and other related costs. The sales for those stores included in such significant closing programs are excluded from the statement of consolidated operations from the effective dates of inclusion in the programs.

Income taxes—The Company's policy is to provide deferred taxes in recognition of timing differences between income for financial reporting and income tax purposes. However, due to the Company's U.S. tax loss carryforward position, no deferred taxes have been provided on the differences between financial and taxable income. Approximately $7 million of deferred income taxes have not been provided on undistributed earnings of foreign subsidiaries considered to be permanently invested. Approximately $10 million of retained earnings of the Company's Canadian subsidiaries can be remitted without any additional tax liability. Investment tax credits, previously utilized for tax purposes, have been deferred and are amortized over the estimated useful lives of the related assets.

Retirement Plans—Annual costs of the Companies' pension plans, which are provided for currently, consist of normal cost, amortization over 40 years of unfunded prior service costs as of January 1, 1976, amortization over 30 years of changes in the unfunded actuarial liability resulting from plan amendments and changes in actuarial assumptions, and amortization over 15 years of annual actuarial gains or losses. Annual costs under union/management administered plans are expensed as provided for in the respective collective bargaining agreements.

Earnings Per Share—Net (loss) per share is based on the weighted average number of common shares outstanding during the respective fiscal years. Stock options outstanding (common stock equivalents) had no material effect and, therefore, were excluded from the computation of net (loss) per share.

Quarterly Information (unaudited)— The following table summarizes the Company's results of operations by quarter for fiscal 1979 and 1978. Management's Comments on the Summary of Operations, page 24, discusses these results and significant changes reflected therein.

	Number of Stores	Sales	Gross Margin	Income (Loss) before Extra-ordinary Item	Net Income (Loss) (b)	Income (Loss) before Extra-ordinary Item	Net Income (Loss)	Dividends	Market Price High	Market Price Low
		Quarterly Operating Results				Per Share Amounts				
Fiscal 1978		(millions)		(thousands)						
First Quarter	1,872	$1,808	$ 384	$ (9,919)	$ (9,919)	$ (.40)	$ (.40)	$.05	$ 9¼	$ 7⅝
Second Quarter	1,845	1,870	396	(6,883)	(6,883)	(.28)	(.28)	—	8	6¼
Third Quarter	1,801	1,884	412	1,506	1,506	.06	.06	—	7⅞	5
Fourth Quarter (a)	1,771	1,908	412	(36,890)	(36,890)	(1.48)	(1.48)	—	7¼	5⅛
		$7,470	$1,604	$(52,186)	$(52,186)	$(2.10)	$(2.10)	$.05		
Fiscal 1979										
First Quarter	1,582	$1,663	$ 364	$ 3,368	$ 4,618	$ .14	$ .19	—	$ 8	$ 6½
Second Quarter	1,551	1,681	368	2,714	3,914	.11	.16	—	10⅜	7¼
Third Quarter	1,551	1,661	359	1,148	1,148	.05	.05	—	9⅝	7⅝
Fourth Quarter	1,542	1,679	352	(11,037)	(13,487)	(.44)	(.54)	—	8⅝	7¼
		$6,684	$1,443	$ (3,807)	$ (3,807)	$ (.15)	$ (.15)	—		

(a) Results for the fourth quarter of fiscal 1978 include a net provision of $40 million, representing the anticipated cost of the Restructuring Program. The number of stores at year-end includes stores subsequently closed in connection with the Restructuring Program.
(b) Net income for the first and second quarters of fiscal 1979 includes charges in lieu of U.S. Federal income taxes, as well as equivalent amounts reflected as extraordinary credits in recognition of the corresponding tax benefit from the utilization of the Company's operating loss carryforward. Such amounts were reversed in the fourth quarter of fiscal 1979 as a result of the net loss incurred in that period.

Restructuring Program—On March 23, 1979, the Board of Directors approved a Restructuring Program which included the closing of certain unprofitable and marginal stores and related support facilities. The initial program encompassed approximately 174 stores and certain manufacturing facilities, administrative offices, and a warehouse. Modifications to the Restructuring Program during fiscal 1979 increased the number of stores closed to 184.

The foregoing restructuring of the Company's operations was based on a comprehensive analysis and study of the Company's organization undertaken during fiscal 1978 with the aid of a management consulting firm. A provision for the estimated cost of the Restructuring Program in the amount of $40 million, which represents a $51.7 million reserve, net of a reversal of deferred taxes totaling $11.7 million, was included in the fiscal 1978 financial results. Costs aggregating $39.5 million, including losses from operations prior to closing, losses on the disposition of properties and equipment, employee severance payments and other benefits, costs of dismantling and moving equipment, restoring leased properties and lease payments made after the facilities were closed were charged to the closing reserves during fiscal 1979.

The activity for fiscal 1979 and 1978 relative to the Restructuring Program reserve, as well as reserves provided for a previous closing program, is summarized in the table below. Activity relating to reserves provided for closing of facilities under the Company's continuing program of evaluating all aspects of its operations is not included therein.

(Dollars in millions)	Current Liabilities	Property Valuation	Non-Current Liabilities	Total
Balance February 25, 1978	$ 3.0	$ —	$ 8.2	$11.2
Charges	(5.3)	—	—	(5.3)
Transfer to Current Liabilities	4.3	—	(4.3)	—
Anticipated Cost of Restructuring Program	33.8	8.3	9.6	51.7
Balance February 24, 1979	35.8	8.3	13.5	57.6
Charges	(32.0)	(7.5)	—	(39.5)
Transfer to Current Liabilities	3.8	—	(3.8)	—
Balance February 23, 1980	**$ 7.6**	**$ .8**	**$ 9.7**	**$18.1**

Contingencies—During fiscal 1980, the Company will enter into negotiations relating to the renewal of certain labor contracts from which the Company will attempt to eliminate certain unfavorable provisions so as to become more competitive with other food retailers in the operating areas involved. The most critical labor negotiations this year include contracts involving stores in the New York metropolitan area which expire in August 1980. These stores include the entire Bronx and Long Island Divisions which have had an extended period of unprofitability. Failure to obtain satisfactory modification and concessions to certain labor contracts may result in closing a number of stores and a charge to earnings in the period in which the decisions to close are made.

Stock Options—The Company has a stock option plan, approved by the stockholders in June 1975, under which officers and key employees may be granted qualified or non-qualified options to purchase not more than 1,000,000 shares of common stock at not less than the fair market value at grant dates and for periods not exceeding ten years. At February 23, 1980, there were 352,600 shares available for future option grants and 264,600 were available at February 24, 1979. Of the non-qualified stock options outstanding at February 23, 1980, 215,000 were exercisable at the date of grant and the remaining 293,000 at cumulative 25% increments after each of the first through the fourth annual anniversaries of the grants. Qualified options are exercisable at cumulative 25% increments after each of the first through the fourth annual anniversaries of the grants, except for 10,000 options granted in fiscal 1978 which were exercisable at the date of grant. In addition, options granted previously under a stock option plan approved by the stockholders in 1969 were outstanding through fiscal 1978. Proceeds from the exercise of stock options are credited to common stock for the aggregate par value of shares issued and the excess is credited to capital surplus, including $2,400 in fiscal 1979. A summary of option transactions is shown in the table below.

	Shares		Option Price	
	Qualified	Non-Qualified	Per Share	Total
Outstanding, February 25, 1978	250,300	510,100	$ 7.81 to $12.56	$ 7,993,335
Fiscal 1978:				
Granted	15,000	105,000	5.88 to 8.19	812,430
Cancelled or Expired	(102,800)	(43,100)	7.81 to 12.25	(1,475,625)
Outstanding, February 24, 1979	162,500	572,000	$ 5.88 to $12.56	$ 7,330,140
Fiscal 1979:				
Exercised	—	(500)	5.88	(2,940)
Cancelled or Expired	(24,500)	(63,500)	5.88 to 12.25	(888,625)
Outstanding, February 23, 1980	138,000	508,000	$ 5.88 to $12.56	$ 6,438,575
Shares becoming exercisable in:				
Fiscal 1978	46,875	56,750	$ 7.81 to $12.56	$ 1,114,603
Fiscal 1979	32,000	73,375	$ 5.88 to $12.56	$ 1,050,991

Shares exercisable: 517,875 at February 23, 1980 and 475,125 at February 24, 1979.

Retirement Plans—The Company provides retirement benefits for substantially all non-union and some union employees under the Company Retirement Plans. Most other full-time and certain part-time union employees are covered by industry plans administered jointly by management and union representatives. The cost of all retirement plans amounted to $42.5 and $47.9 million in fiscal 1979 and 1978, respectively. The Companies' independent actuaries estimate that vested benefits under the Companies' plans are fully funded at December 31, 1979. The Company could, under certain circumstances, be liable for substantial unfunded vested benefits or other costs of jointly administered union/management plans.

Indebtedness—Long-term debt (exclusive of current maturities) consists of:

	February 23, 1980	February 24, 1979
	(Dollars in thousands)	
9½% Senior Notes, due in 10 annual installments of $10,000,000 commencing October 1, 1983	**$100,000**	$100,000
9⅞% Mortgage Notes, due in monthly installments of $83,333 through September 29, 1997	**16,667**	17,667
Other notes, interest rates of ⅞% to 9¼%, due 1981 to 2002	**14,014**	14,971
	$130,681	$132,638

Under restrictive covenants contained in the Note Agreements relating to the Company's 9½% Senior Notes issued in September 1977, the Company is presently prohibited from declaring or paying dividends (other than stock dividends) on its common stock. As of February 23, 1980, the Company would have had to have additional Consolidated Net Earnings (as defined) in excess of $37.9 million in order to declare any dividends on its outstanding common stock, in which event, the payment of dividends would have been limited to 75% of such excess. The Company is also required to maintain Consolidated Working Capital (as defined) of not less than $175 million. At February 23, 1980, Consolidated Working Capital (as defined) was $245.9 million. Such note agreements also place limitations on the incurrence of additional indebtedness and lease commitments.

Maturities of long-term debt during each of the next five fiscal years are as follows:

1980	$ 1,686,000
1981	1,703,000
1982	1,727,000
1983	11,764,000
1984	11,750,000

The Company has established $95 million in lines of credit with commercial banks. During fiscal 1978, average daily bank borrowings amounted to $11.3 million and the average daily interest rates for these borrowings were 7.7%. The maximum borrowings outstanding under these lines at any month-end were $60 million in fiscal 1978. There were no borrowings made under these lines during fiscal 1979.

With respect to the lines of credit, there are informal arrangements with certain of the banks to maintain compensating balances, expressed in bank collected balances. The Company is expected, in some cases, to maintain average monthly bank collected balances totaling approximately 10 percent of the credit commitment plus 10 percent of outstanding loans made under the agreements. Such compensating balances requirements are not significant.

Income Taxes—The provision for income taxes consists of the following:

(Dollars in thousands)	Fiscal 1979	Fiscal 1978
Relating to operations:		
Current:		
Canadian	**$3,206**	$ 50
State and Local	**1,136**	300
Amortization of Investment Tax Credits	**(792)**	(1,200)
	3,550	(850)
Deferred—Canadian	**1,115**	2,450
	$4,665	$ 1,600
Relating to Restructuring Program:		
Deferred—U. S.	**$ —**	$(11,669)

The anticipated cost of the Restructuring Program is deductible for income tax purposes as costs are actually incurred. The realization of the entire potential tax benefit of such costs is not considered assured beyond a reasonable doubt because of the Company's existing tax loss carryforward. Accordingly, only $11.7 million of deferred taxes, which is equivalent to previously provided net deferred U.S. income taxes that would become due during the tax loss carryforward period, were recognized for financial statement purposes in fiscal 1978.

The deferred Canadian provisions represent the excess of depreciation deductions of a Canadian subsidiary for tax purposes over amounts recorded for financial statement purposes. Fiscal 1979 also includes a provision on current undistributed earnings of a Canadian subsidiary.

At February 23, 1980, the Company had a U.S. operating loss carryforward, for financial statement purposes, of approximately $168 million which arose principally from provisions for closing of facilities. For tax purposes, the Company's U.S. operating loss carryforward is approximately $116 million which expires in fiscal 1982 through 1986. In addition, the Company has unused investment tax credits of approximately $31.5 million. These unused credits, which have not been recognized for financial statement purposes, will expire as follows: fiscal 1981—$4.0 million, fiscal 1982 —$6.5 million, fiscal 1983—$7.3 million, fiscal 1984—$6.8 million, fiscal 1985—$2.9 million, and fiscal 1986—$4.0 million.

The difference between the Company's effective tax rate and the U.S. and Canadian statutory tax rates is attributable to the fact that no U.S. tax provision was required due to the U.S. operating losses, a lower statutory rate for a Canadian non-resident subsidiary, the Company's policy of amortizing investment tax credits, the effective rates of state and local income taxes, unrealized foreign exchange translation gains and losses and also, in fiscal 1978, the previously discussed reversal of $11.7 million of deferred taxes.

Litigation—In the 1974 Annual Report, the Company reported on an antitrust judgment entered in favor of a Mr. Bray and five other cattle producers or feeders in the amount of $35.8 million plus interest. The Company settled this action in 1975 (for payments ending in 1980 having a present value of about $7 million, which was charged to operations in fiscal 1975) and the judgment was vacated and the action dismissed.

During 1975 and 1976, nine similar antitrust suits, alleging violations of sections of the Sherman Act were filed in five states, and all of these were consolidated for pretrial purposes in the Dallas Federal Court. One of these actions was purportedly brought on behalf of a class consisting of all persons who are engaged in the business of raising fat cattle who have not otherwise filed claims and who sold more than 100 head of cattle per year. Each of these suits names the Company and other retail food chains as defendants and asks damages and other relief which may include an injunction. While most of these plaintiffs have not specified the amounts of damages they are claiming, their aggregate claims are substantial. In the actions in which money damages are specified or estimated, the plaintiffs allege damages exceeding $270 million.

On December 27, 1977, the District Judge hearing these actions entered a judgment dismissing all of them on the ground that plaintiffs had not sold directly to the retail food chain defendants, following Illinois Brick Co. v. the State of Illinois 431 US720 (1977). In all but one of such actions, the plaintiffs appealed the judge's ruling and succeeded in having his dismissal ruling reversed. During 1977, seven additional antitrust suits alleging similar violations of the Sherman Act and seeking unspecified treble damages were filed in Texas and Utah. In certain of these new suits, meat packers to whom plaintiffs may have sold some of their cattle, are included as alleged co-conspirator defendants with the food chains. All these actions have been transferred to the Dallas Federal Court for pretrial purposes. A similar action has also been filed in California Superior Court but has been dismissed upon motion of the defendants and is presently on appeal.

In the above private actions, all of which are in the preliminary pretrial stages, money damages awarded to plaintiffs, if any, would automatically be trebled and such a judgment would also include reasonable plaintiffs' attorneys' fees.

The Company is also a defendant in an action filed on November 20, 1978 in the United States District Court for the Southern District of New York by Carmelo Maimone, his company and his associates. The Complaint alleges that defendants A&P and Booz Allen & Hamilton, Inc. agreed to reduce the number of A&P stores and discouraged developers from finding suitable tenants or from developing shopping centers for other tenants and that the Company breached its obligations to plaintiff. The Complaint alleges antitrust and other violations of law; it seeks treble damages and other damages in the amount of $33,000,000 and $9,000,000 in punitive damages, as well as costs, attorneys' fees and other relief.

The Company denies all allegations of wrong-doing in the above-mentioned actions. No provision for possible liability has been made in the accompanying financial statements.

As the result of the investigation of a charge filed on October 18, 1974, the Equal Employment Opportunity Commission ("Commission") issued a determination finding probable cause to support the allegation that the Company, several international unions and certain of their locals have violated the Civil Rights Act of 1964, as amended, by engaging in patterns and practices of employment discrimination. The Commission has submitted a proposed Consent Decree which would enjoin the defendants from the alleged discrimination in hiring, promotion and other employment practices, and require remedial measures, detailed implemental procedures and payments to alleged victims of discrimination.

The Company is also involved in various other claims, administrative agency proceedings and other lawsuits arising out of the normal conduct of its business.

Although the ultimate outcome of the legal proceedings cannot be predicted, the Company's present opinion is that any resulting liability will not have a material effect upon the Company's financial position.

Lease Obligations—The Company operates primarily in leased facilities as it believes that its capital can be invested more productively in inventories and store equipment. Lease terms generally range up to twenty-five years for store leases and thirty years for other leased facilities, with options to renew for additional periods. The majority of the leases contain escalation clauses relating to property tax increases, and certain of the store leases provide for increases in rentals when sales at the stores exceed specified levels. In addition, the Company leases some store equipment and trucks because of financial and tax considerations.

The Company accounts for leases in accordance with FASB Statement No. 13. Accordingly, the February 23, 1980 balance sheet includes $154,758,000, net of accumulated amortization of $67,865,000, for real property leased under capital leases and $28,226,000, net of accumulated amortization of $8,594,000, for equipment leased under capital leases. The February 24, 1979 balance sheet includes $162,015,000, net of accumulated amortization of $60,133,000, for real property leased under capital leases and $37,608,000, net of accumulated amortization of $4,685,000, for equipment leased under capital leases. The capitalized value of equipment leased under capital leases is included with owned equipment in the accompanying balance sheet.

Rent expense for operating leases aggregated $71,476,000 and $77,126,000 in fiscal 1979 and 1978 respectively, including $3,953,000 and $4,485,000 in contingent rentals. The minimum annual rentals for leases in effect at February 23, 1980 are shown in the table below. All amounts are exclusive of lease obligations and sublease rentals applicable to facilities closed pursuant to a previous closing program and the Restructuring Program.

Minimum Annual Rentals

(Dollars in thousands)	Fiscal	Capital Leases Equipment	Capital Leases Real Property	Operating Leases
	1980	$ 6,468	$ 27,322	$ 55,181
	1981	6,468	27,034	52,178
	1982	6,468	26,451	47,771
	1983	6,468	25,836	42,010
	1984	6,462	25,270	36,408
	1985 and thereafter	6,552	266,397	282,077
		$38,886	$398,310	$515,625
Less executory costs		—	(16,518)	
Net minimum rentals		38,886	381,792	
Less interest portion		(8,922)	(197,679)	
Present value of net minimum rentals		$29,964	$184,113	

Subsequent Event—On April 11, 1980, the Company announced plans for a rights offering of approximately 12,500,000 shares of new common stock to all stockholders, subject to preparation of required documentation and all necessary government approvals. TN Delaware Incorporated, which owns 45% of the Company's common stock, has agreed to exercise all subscription and oversubscription privileges available to it under this offering, up to a maximum aggregate investment of $50 million. All other stockholders will be offered the same oversubscription privileges for unsubscribed shares.

Replacement Cost (unaudited)—In response to the Securities and Exchange Commission requirements, the Company's Annual Report on Form 10-K, which is available on request, contains certain estimated replacement cost data regarding the costs of replacing inventories and productive capacity at February 23, 1980 and February 24, 1979 and related information concerning depreciation and the cost of merchandise sold for the years then ended.

The replacement cost information disclosed in Form 10-K indicates that the cost of replacing the Company's productive capacity would be substantially higher than its original cost. The Company believes that, if this productive capacity were replaced, certain operating economies would result; however, these economies are not readily quantifiable. In addition, the estimated replacement costs reported do not necessarily indicate either the manner in which productive capacity would be replaced or the actual costs that would be incurred.

Basis of preparation—The supplementary financial data presented in the tables below disclose certain effects of inflation and changes in the prices of the Company's inventory and property, plant and equipment as required by Statement No. 33 of the Financial Accounting Standards Board (FASB No. 33), Financial Reporting and Changing Prices. The Company's primary financial statements are presented on an historical basis, that is, on a basis of the prices in effect when the transactions occurred.

The data which follow adjust the historical amounts of beginning and ending inventories and related cost of merchandise sold for the effects of inflation. The result of this calculation is to increase cost of sales by approximately 13% of the average of beginning and ending inventories. Depreciation expense included in the table below is calculated using the same methods and rates of depreciation as used in the historical financial statement; however, the rates are applied to plant and equipment balances adjusted for general inflation.

Income tax expense has not been modified for any timing differences, allocations or adjustments that may result from applying the different methods in preparing the supplementary data.

The Consumer Price Index for All Urban Consumers (CPI-U), prepared by the U. S. Department of Labor, is used to measure the effects of general inflation. These constant dollar basis disclosures do not purport to represent appraised values, replacement cost or any other measure of current values.

The Company has elected to present the data required, adjusted only for constant dollars and therefore includes the replacement cost disclosures required by Accounting Series Release No. 190, in Form 10-K.

Management Overview—The effect of inflation on the food distribution industry in general has been significant over the past several years. The additional costs incurred by farmers, food processors and wholesalers are passed on to the Company. Due to the competitive nature of the retail supermarket business, the Company has been unable to pass on these costs fully to the customer. The opportunities for the Company to control inflationary costs are limited particularly with respect to labor and energy.

The effect of inflation on the Company's financial results is significant as it relates to inventory and the historical cost of plant and equipment (including real property and equipment leased under capital leases) and the related depreciation and amortization expense. Because plant and equipment are purchased over an extended period of time, ongoing replacement of existing facilities would be at a much greater cost than that reflected on the balance sheet in historical dollars. Also, depreciation and amortization expense, as reflected in the Company's primary financial statements, allocates a ratable portion of those historical dollar costs of plant and equipment against sales which are stated in current dollars. The difference between the Statement of Income (Loss) from Continuing Operations Adjusted for Changing Prices and the primary financial statements is due to the effect of adjusting inventory balances and related cost of merchandise sold and the increase in depreciation and amortization expense to reflect average fiscal 1979 dollars.

The management of the Company cautions that the data presented reflect the effects of the overall inflation rate as measured by the CPI-U. Such data are not necessarily indicative of the impact of inflation on the Company's operations. No attempt has been made to calculate the benefit derived from potential price increases to offset the higher depreciation and amortization costs, nor does such data reflect economies which normally accompany the investment in new productive capacity. Additionally, no attempt has been made to determine the effect of inflation on the Company's operating leases.

Statement of Income (Loss) from Continuing Operations Adjusted for Changing Prices

For the Year Ended February 23, 1980 (In average fiscal 1979 dollars, in thousands)		
Loss from continuing operations, as reported in the statement of consolidated operations		$ (3,807)
Adjustments to restate costs for the effect of general inflation:		
Cost of goods sold	$(71,505)	
Depreciation and amortization expense	(30,981)	(102,486)
Loss from continuing operations adjusted for general inflation		$(106,293)
Purchasing power gain on net amounts owed		$ 86,268

Five-Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices

For the Fiscal Year (In average fiscal 1979 dollars, in thousands, except per share amounts)	1979	1978	1977	1976	1975
Sales	**$6,684,179**	$8,365,717	$8,825,732	$9,347,714	$8,917,868
Historical cost information adjusted for general inflation					
Income (loss) from continuing operations	(106,293)				
Income (loss) from continuing operations per common share	(4.27)				
Net assets at year end	645,412				
Purchasing power gain on net amounts owed	86,268				
Cash dividends per common share	—	.06	.18	—	—
Market price per common share at year end	$ 7.18	$ 7.65	$ 9.73	$ 14.74	$ 15.80
Average consumer price index	222.2	198.4	183.5	172.0	162.9

Statement of Consolidated Operations

(Dollars in thousands, except per share figures)	Fiscal 1979	Fiscal 1978
Sales	$6,684,179	$7,469,659
Cost of merchandise sold	5,241,050	5,865,637
Gross margin	1,443,129	1,604,022
Store operating, general and administrative expense	1,415,990	1,580,154
Income from operations	27,139	23,868
Anticipated cost of Restructuring Program	—	(51,669)
Interest (expense) income:		
Capital leases	(22,282)	(23,420)
Interest expense	(13,399)	(15,432)
Interest income	9,400	4,398
Interest expense—net	(26,281)	(34,454)
Income (loss) before income taxes	858	(62,255)
(Provision) credit for income taxes relating to:		
Restructuring Program	—	11,669
Operations	(4,665)	(1,600)
Net (loss)	$ (3,807)	$ (52,186)
Per common share:		
Net (loss)	$ (.15)	$ (2.10)
Dividends	$ —	$ .05

Statement of Consolidated Retained Earnings (Deficit)

(Dollars in thousands)	Fiscal 1979	Fiscal 1978
Retained earnings (deficit)—beginning of year	$ (4,296)	$ 49,135
Net (loss)	(3,807)	(52,186)
Dividends	—	(1,245)
Retained earnings (deficit)—end of year	$ (8,103)	$ (4,296)

See Financial Review and Summary of Significant Accounting Policies on Pages 14 through 20.

Auditors' Opinion

Deloitte Haskins & Sells
Certified Public Accountants

To the Board of Directors and Stockholders of The Great Atlantic & Pacific Tea Company, Inc.:

We have examined the consolidated balance sheets of The Great Atlantic & Pacific Tea Company, Inc. and subsidiary companies as of February 23, 1980 and February 24, 1979 and the related statements of consolidated operations, consolidated retained earnings (deficit) and changes in consolidated financial position for the fiscal years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of the companies as of February 23, 1980 and February 24, 1979 and the results of their operations and changes in their financial position for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells

Hackensack, New Jersey
April 29, 1980

Consolidated Balance Sheet

Assets (Dollars in thousands)	**February 23, 1980**	February 24, 1979*
Current assets:		
Cash and short-term investments	$ 63,937	$ 94,716
Accounts receivable	51,585	47,837
Inventories	543,871	544,525
Properties held for development and sale	30,166	25,790
Prepaid expenses	6,498	6,156
Total current assets	696,057	719,024
Property:		
Land	10,788	12,281
Buildings	76,350	77,721
Equipment	368,532	384,596
Total—at cost	455,670	474,598
Less accumulated depreciation and allowance for loss on property in closed facilities	(200,258)	(202,189)
	255,412	272,409
Store fixtures and leasehold improvements, at amortized cost	111,440	113,856
	366,852	386,265
Real property leased under capital leases	154,758	162,015
Property—net	521,610	548,280
Other assets	12,855	13,922
	$1,230,522	$1,281,226

Liabilities and Stockholders' Equity (Dollars in thousands)		
Current liabilities:		
Current portion of long-term debt	$ 1,686	$ 1,593
Current portion of obligations under capital leases	11,877	11,715
Accounts payable	265,620	265,022
Accrued salaries, wages and benefits	81,197	86,138
Accrued taxes, other than income taxes	33,818	41,055
Current portion of closing reserves and other accruals	67,866	87,308
Total current liabilities	462,064	492,831
Long-term debt	130,681	132,638
Obligations under capital leases	202,200	214,914
Deferred income taxes and investment tax credits	1,990	1,667
Closing reserves and other liabilities	39,496	41,281
Stockholders' equity:		
Preferred stock—no par value; authorized—3,000,000 shares; issued—none		
Common stock—$1 par value; authorized—40,000,000 shares; outstanding—24,892,584 and 24,892,084 shares	24,893	24,892
Capital surplus	377,301	377,299
Retained earnings (deficit)	(8,103)	(4,296)
Total stockholders' equity	394,091	397,895
	$1,230,522	$1,281,226

* Restated to reflect the reclassification of certain liabilities from current to non-current

See Financial Review and Summary of Significant Accounting Policies on Pages 14 through 20.

Statement of Changes in Consolidated Financial Position

(Dollars in thousands)	Fiscal 1979	Fiscal 1978*
Source of funds:		
From operations:		
Net (loss)	$ (3,807)	$(52,186)
Expenses (income) not requiring (providing) working capital:		
Depreciation and amortization	56,299	61,825
Amortization of real property leased under capital leases	11,265	12,607
Anticipated cost of Restructuring Program (non-current portion)	—	17,900
Deferred income taxes	1,115	(8,804)
Deferred investment tax credits	(792)	(1,200)
Working capital provided from operations	64,080	30,142
Disposition of property	26,285	19,781
Obligations under capital leases	(808)	34,980
Decrease in property leased under capital leases due to store closings, terminations and amendments	10,520	23,297
Proceeds from borrowings	4,658	—
Total	104,735	108,200
Disposition of funds:		
Dividends	—	1,245
Expenditures for property	67,949	57,470
Property leased under capital leases	9,750	47,303
Decrease in obligations under capital leases due to store closings, terminations and amendments	11,906	28,370
Current maturities and repayment of long-term debt	6,615	1,589
Transfer of non-current closing reserves to current liabilities	6,331	4,281
Other	(5,616)	1,667
Total	96,935	141,925
Increase (decrease) in working capital	7,800	(33,725)
Working capital—beginning of year	226,193	259,918
Working capital—end of year	$233,993	$226,193
Increase (decrease) in components of working capital:		
Cash and short-term investments	$(30,779)	$ 68,179
Accounts receivable	3,748	(6,743)
Inventories	(654)	(47,832)
Properties held for development and sale	4,376	(18,521)
Prepaid expenses	342	(360)
	(22,967)	(5,277)
Accounts payable	598	(36,623)
Current portion of long-term debt	93	(35)
Current portion of obligations under capital leases	162	242
Accrued expenses	(12,178)	18,031
Current portion of closing reserves and other accruals	(19,442)	46,833
	(30,767)	28,448
Increase (decrease) in working capital	$ 7,800	$(33,725)

* Restated to reflect the reclassification of certain liabilities from current to non-current.

See Financial Review and Summary of Significant Accounting Policies on pages 14 through 20.

The following are management's comments on significant changes during the last five fiscal years. These comments should be read in conjunction with the Five-Year Summary of Operations on page 25.

Fiscal 1979 Compared with Fiscal 1978—Sales for fiscal 1979 were $6.7 billion compared with $7.5 billion in fiscal 1978, a 10.5% decrease. This decrease was primarily the result of a net reduction of 229 stores during the year including 184 stores which were closed as part of the Restructuring Program. Sales of continuing stores were 1.9% lower in fiscal 1979, as compared with the previous fiscal year while the inflation rate for food at home increased approximately 10.6%.

Gross margin decreased $161 million, or 10.0%, in fiscal 1979, as compared with fiscal 1978. Gross margin as a percentage of sales was 21.6% in fiscal 1979 and 21.5% in fiscal 1978. While gross margin as a percentage of sales increased .1% in fiscal 1979 compared with fiscal 1978, it decreased during the last half of this year due principally to the inability of the Company to fully pass along increased costs to consumers, offset, in part, by the elimination of many lower margin stores closed in connection with the Restructuring Program.

Store operating, general and administrative expense was $1.4 billion in fiscal 1979 compared with $1.6 billion in fiscal 1978, a 10.4% decrease. This decrease resulted primarily from the closing of 229 stores during the year, offset, in part, by costs incurred in the start up of the Company's new subsidiary, PLUS Discount Foods Inc. Store operating, general and administrative expense as a percentage of sales was 21.2% for both fiscal 1979 and fiscal 1978.

Interest expense decreased $2.0 million, or 13.2%, in fiscal 1979 due to the elimination of all short-term borrowings in fiscal 1979, the reduction of long-term debt during the fiscal year and the implementation of FASB Statement No. 34 which resulted in capitalizing $638,000 of interest during fiscal 1979.

Interest income increased $5.0 million in fiscal 1979 to $9.4 million. This increase reflects a higher average level of short-term investments, principally during the first half of the fiscal year, and generally higher interest rates than those obtained on invested funds in fiscal 1978.

The provision for income taxes aggregated $4.7 million in fiscal 1979, as compared with a net tax credit of $10.1 million in fiscal 1978. The provision for fiscal 1979 is comprised primarily of income taxes on the Company's Canadian operations, while the net tax credit in fiscal 1978 is due principally to the reversal of certain deferred taxes in connection with the Company's Restructuring Program.

The net loss in fiscal 1979 aggregated $3.8 million, as compared with a net loss of $52.2 million in fiscal 1978. The net loss in fiscal 1979 reflects continuing pressure on gross margins, as previously discussed, as well as the start-up and conversion costs in connection with the Company's new subsidiary, PLUS Discount Foods Inc. As discussed below, the fiscal 1978 loss includes reserves of $40 million and $3.9 million.

Fiscal 1978 Compared with Fiscal 1977—Sales for fiscal 1978 were $7.5 billion compared with $7.3 billion in fiscal 1977, a 2.5% increase. This increase was due primarily to inflation and to the opening of 52 stores, net of the impact of closing 186 stores (exclusive of the closings relative to the Restructuring Program). Average weekly sales per store increased $6,424, or 8.6%, from $74,741 per store in the fourth quarter of fiscal 1977 to $81,165 in the same period of fiscal 1978.

Gross margin as a percentage of sales increased from 21.3% in fiscal 1977 to 21.5% in fiscal 1978 due principally to improvements in product mix and a reduction in inventory losses.

Store operating, general and administrative expenses as a percentage of sales increased from 20.8% in fiscal 1977 to 21.2% in fiscal 1978 primarily due to increased labor and benefit costs, increased marketing and promotional costs, utility costs, and higher rent in new and enlarged stores offset, in part, by reductions in administrative costs.

During the fourth quarter of 1978, a $40 million reserve, net of a reversal of deferred taxes totaling $11.7 million, was provided in connection with the Restructuring Program initially involving the closing of approximately 174 stores and certain manufacturing facilities, administrative offices, and a warehouse.

Interest expense (net) decreased $1.8 million, or 13.9%, in fiscal 1978, as compared with fiscal 1977. This decrease was primarily due to increased income from short-term investments, resulting from improved cash management.

The net loss in fiscal 1978 aggregated $52.2 million, as compared with net income of $.6 million in fiscal 1977. The loss for fiscal 1978 was principally attributable to the anticipated cost of the Restructuring Program previously discussed, as well as the higher store selling, general and administrative expenses.

Included in the second quarter of 1978 is a charge of approximately $3.9 million, representing the estimated losses on stores and other facilities closed under the Company's continuing program of evaluating all aspects of its operations.

Significant Changes Prior to Fiscal 1977—Sales for fiscal 1977 were $7.3 billion compared with $7.2 billion in fiscal 1976 and $6.5 billion in the 53-week period of 1975. The modest increase reflects the fact that sales in fiscal 1977 did not keep pace with inflation. The 11% increase in sales in fiscal 1976 was moderated by the effect of the 53rd week in fiscal 1975.

Gross margins as a percent of sales were 20.2% and 19.5% for fiscal 1976 and 1975, respectively.

Fiscal 1976 net income of $18.7 million is after an extraordinary credit of $7.6 million representing the tax benefit of the Company's operating loss carryforward. The fiscal 1975 net loss of $32 thousand included a $35 million reversal of the 1974 provision for the closing of facilities, representing the excess of estimated costs over actual costs incurred in the program.

Five-Year Summary of Operations

(Dollars in thousands, except per share figures) For the Fiscal Year	1979	1978	1977	1976	1975(d)
Summary of Operations					
Sales	**$6,684,179**	$7,469,659	$7,288,577	$7,235,854	$6,537,897
Cost of merchandise sold	**5,241,050**	5,865,637	5,738,002	5,770,698	5,260,844
Gross margin	**1,443,129**	1,604,022	1,550,575	1,465,156	1,277,053
Store operating, general and administrative expense	**1,415,990**	1,580,154	1,513,956	1,420,485	1,299,059
Income (loss) from operations	**27,139**	23,868	36,619	44,671	(22,006)
(Provision for) adjustment of cost of closing facilities	—	(51,669)	—	(500)	35,000
Interest expense:					
Capital leases	**(22,282)**	(23,420)	(22,639)	(19,690)	(16,979)
Other—net	**(3,999)**	(11,034)	(12,811)	(5,294)	(4,447)
Income (loss) before income taxes and extraordinary item	**858**	(62,255)	1,169	19,187	(8,432)
(Provision) credit for income taxes	**(4,665)**	10,069	(600)	(8,025)	6,600
Income (loss) before extraordinary item	**(3,807)**	(52,186)	569	11,162	(1,832)
Extraordinary item (e)	—	—	—	7,580	1,800
Net income (loss)	**(3,807)**	(52,186)	569	18,742	(32)
Depreciation and amortization (a)	**56,299**	61,825	60,948	54,599	53,709
Number of employees	**63,000**	72,000	81,000	90,000	93,000
Number of stores	**1,542**	1,771	1,905	1,978	2,074
Total store-area (square feet)	**33,057,000**	36,935,000	38,354,000	38,478,000	39,202,000
Balance Sheet Data					
Total assets	**1,230,522**	1,281,226	1,305,967	1,227,097	1,147,470
Working capital	**233,993**	226,193	259,918	234,045	235,869
Current ratio	**1.51**	1.46	1.56	1.54	1.58
Additions to property (a)	**69,707**	84,273	104,814	94,633	65,880
Property-net	**521,610**	548,280	569,317	550,462	497,367
Long-term debt	**130,681**	132,638	134,227	107,592	78,520
Stockholders' equity	**394,091**	397,895	451,326	454,482	435,623
Common Stock Data					
Income (loss) per share before extraordinary item (b)	**(.15)**	(2.10)	.02	.45	(.07)
Extraordinary item per share (b)	—	—	—	.30	.07
Net income (loss) per share (b)	**(.15)**	(2.10)	.02	.75	—
Cash dividends per share	—	.05	.15	—	—
Stockholders' equity per share (c)	**15.83**	15.98	18.13	18.26	17.12
Shares outstanding (b)	**24,892,137**	24,892,084	24,892,084	24,885,630	24,878,012
Number of stockholders	**34,704**	36,556	38,012	40,200	40,900

(a) Excludes real property leased under capital leases, and includes equipment leased under capital leases.
(b) Based on the weighted average number of common shares outstanding each year.
(c) Based on the number of common shares outstanding at each year-end.
(d) 53 weeks; all other years contained 52 weeks.
(e) Represents tax benefit of operating loss carryforward.

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Transfer Agent and Registrar
Manufacturers Hanover
Trust Company
New York, New York

The Annual Meeting will be held on Friday, June 27, 1980, at 10 a.m. at the Sheraton West Hotel, 2544 Executive Drive, Indianapolis, Indiana. Stockholders are cordially invited to attend.

Copies of the Form 10-K submitted to the Securities and Exchange Commission will be provided to stockholders upon written request to the Secretary.

Common stock of the Company is traded on the New York Stock Exchange under the symbol "GAP," and has unlisted trading privileges on the Boston, Midwest, Philadelphia-Baltimore-Washington, Pittsburgh, Cincinnati and Detroit Stock Exchanges.

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